Synopsis

On

Financial Resilience and Fragility in Non Banking Financial Companies in India

For Registration

In

Doctorate of Philosophy

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I. Proposed Topic of Research

Financial Resilience and Fragility in Non Banking Financial Companies in India.

II. Introduction

India has Financial institutions which are actually not banks but which accept deposits and extend credit like banks, who behave like shadow banks. These are technically called Non Banking Financial Companies (NBFCs) in India. NBFCs have been broadly classified in two categories: deposits accepting and Non Deposits accepting.

NBFCs in India include not just the finance companies that the general public is largely familiar with; the term also entails wider group of companies that are engaged in investment business, insurance, chit fund, nidhi, merchant banking, stock broking, alternative investments, etc., as their principal business. All are though not under the regulatory purview of the Reserve Bank viz. Venture Capital Fund/Merchant Banking companies/Stock broking companies registered with SEBI, Insurance Company holding a valid Certificate of Registration issued by IRDA, Nidhi companies as notified under Section 620A of the Companies Act, 1956, Chit companies as defined in clause (b) of Section 2 of the Chit Funds Act, 1982, Housing Finance Companies regulated by National Housing Bank, Stock Exchange or a Mutual Benefit company..

At end-March 2017, there were 11,522 NBFCs registered with the Reserve Bank, out of which 220 were NBFCs-ND-SI. Presently, this number has increased to 292 for NBFC-ND-SI (as on 16th july 2020).

Under the present dispensation, a company is treated as an NBFC if its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and income from these financial assets is more than 50 per cent of its gross income and total assets are `10 billion or more.. Both these tests are required to be satisfied. There is a problem with this definition. As a financial regulator, Reserve Bank primarily regulates the financial activities of NBFCs, while they can also engage in non financial activities of comparable magnitude. It is, therefore, important to insulate the sector from the spillover of possible risks from non-financial activities.

In formulating the threshold for registration of NBFCs, they were guided by considerations of conserving limited regulatory resources and issues of materiality of the risk profile of NBFCs. Accordingly, it proposed to exempt two categories of NBFCs from registration – one, all non-deposit taking NBFCs with asset size below `0.25

billion/2.5crores and two, NBFCs with asset size below `5 billion/ 500 crores and not accessing public funds. These NBFCs would also be exempt from regulation. Small NBFCs having asset size of less than `0.25 billion or NBFCs with asset size below `0.5 billion and not accessing public funds are not likely to create systemic risk in view of their small size and absence of leverage respectively.

Steps for regulation of NBFCs were initiated as early as in the sixties. Regulation of NBFCs was found to be necessary for three reasons:

I) Ensuring efficacy of credit and monetary policy;

II) Safeguarding depositors' interest, and

III) Ensuring healthy growth of Non-Banking Financial Intermediaries (NBFIs).

Thus, the Banking Laws (Miscellaneous Provisions) Act, 1963 was introduced to incorporate a new chapter (i.e., Chapter III B) in the Reserve Bank of India Act, 1934 to regulate the NBFIs.

In 1998, the RBI introduced an entirely new set of NBFC regulations and supervision (announced in January and further amended in December). In this new set of regulations, the NBFCs were broadly classified into three categories:

I) Deposit taking NBFCs;

II) Non-deposit taking NBFCs; and

III) Core Investment Companies.

The new regulatory framework involved a prescription of prudential norms for deposit taking NBFCs to ensure that these NBFCs function on sound and healthy lines. However, the regulatory and supervisory attention was focused mainly on the deposit taking NBFCs to protect the interests of the depositors. The non-deposit taking NBFCs were kept subject to minimal regulation and, practically, Core Investment Companies were left out altogether.

As per April 2013 regulations, the deposit taking and non-deposit taking NBFCs are classified by the RBI into the following seven categories by function:

I) Investment Companies

II) Core Investment Companies

III) Asset Finance Companies

IV) Loan Companies

V) Infrastructure Finance Companies

VI) Factoring Companies

VII) Micro Finance Institutions.

The last two categories are recent and were formerly Loan Company NBFCs. Our systemically important non-deposit taking NBFC dataset contains all of the above types, except the Core Investment Companies.

Since the main business of all types of the NBFCs from type 3 to type 7 is extending credit, we lump them into a super-category that known as "Financing Companies".

Therefore, our systemically important non-deposit taking NBFC dataset comprises two NBFC types:

I) Investment Companies

II) Financing Companies.

Regulatory Framework for NBFCs

It is based on three criterias,

(I) the acceptance or otherwise of public deposits;

(II) the size of NBFCs, and

(III) the type of activity performed.

To ensure the adherence of the NBFCs to the regulatory guidelines, a four pronged supervisory model which included, On-site inspection based on the CAMELS methodology, Off-site monitoring supported by state-of the-art technology, Market Intelligence; and Exception Reports of statutory auditors was put in place by the Reserve Bank (RBI, 2005).

The basic tenet of regulation and supervision of NBFCs sector is that, while ensuring the interests of depositors, the functioning of NBFCs should be in consonance with the monetary policy framework so that it does not lead to systemic aberrations.

Over a period, considering the rapid growth in the number of NBFC-ND segment in terms of their size and numbers within the financial system, even these NBFCs not accepting public deposits with assets size of Rs. 100 crore and above (defined as systemically important) were also brought within the fold of RBI's regulatory framework since 2006. Though initially it was intended to regulate in a limited manner, since recent years, there is a visible progress in the convergence of regulatory norms between both the deposit taking and non-deposit taking NBFCs of systemically important category.

<u>The Breadth of the Shadow Banking System</u>

The importance of NBFCs in disbursing credit to the overall commercial sector has risen in recent years, as banks have struggled to increase lendings amid the overhang of non performing assets(NPA's). if we talk about NBFC's share in total credit extended, it has increased from around 9.4% in march 2009 to more than 17% by march 2018, (data from the RBI's latest financial stability report) and India's shadow banking size is on the Higher side, compared to the most other G20 economies. Moreover, Shadow banks are closely interwined with banks as both creditors and borrowers. As a result, the stability of the shadow banking network cannot be easily divorced from that of banks, if a shadow bank gets into trouble, so may the banks that have loaned it money. This became painfully clear during 2007-2009 GFC. This all is implying that banks are only one category of player in the international financial markets whose fortune depend on those

of other players. This became painfully clear during 2007-2009 GFC. Also, despite the defaults on the part of IL&FS and of DHFL, we still have a huge base in lending activities of consumer & Housing Markets under NBFCs because of the trust they are trying to build among their subscribers. For Eg. Even under TLTRO which was done by RBI in March 2020 to solve the problem of Liquidity Crunch, NBFCs were not given the benefit of 'Morotorium', but this facility was being provided by them to their borrowers to make sure that the confidence of Borrowers for shadow banks remains intact.

Also, they were seeking a new rescue plan, for which RBI came up with LTRO2.0 of Rs 50000 crores to ensure that small and mid sized corporates, NBFCs and MFIs get enough liquidity.

We explore three motivations for the growing importance of shadow banking.

First, it highlights financial innovation in the composition of the aggregate money supply.

Second, it discusses the incentives of financial institutions to avoid taxes, accounting rules, or capital requirements.

Third, it reviews the presence of agency problems in financial markets, which create perverse incentives

Further Explanations about the relation of NBFCs with Banks: For instance, Regulators may wish to remove or at least reduce restrictions on bank branching networks to enable banks to have the reach and specialization of lending in non-urban areas that NBFCs appear to be providing. However, if such restrictions are not removed, then attempts to regulate the credit growth of NBFCs may end up under-serving the relatively unbanked parts of the economy even further.

III. Review of Literature

Bose *et al.* (2008) examined the correlation between Banking Development and the size of Shadow Economies by employing data on 137 countries over the period from 1995 to 2007 where its highlighted that banking development is one of the determinants of shadow economy. Analysis suggested that an improvement in the development of the banking sector is associated with a smaller shadow economy. The results are sturdy to a variety of specifications that address Multicollinearity and Endogeneity issues.It has recognized a number of factors (the burden of taxation or regulation, the quality of government, legal enforcement, corruption, etc.) that create such incentives.

Adrian (2009) explained about how the financial crisis realized the significance of the 'shadow banking system' that grew out of the securitization of assets and the integration of banking with capital market developments. This trend has been most pronounced in the United States but it had a profound influence on the global financial system. Banking and Capital market developments are inseparable in a market-based financial system. Funding conditions are closely related to fluctuations in the leverage of financial intermediaries. Balance sheets' growth of these intermediaries provides a

perception of the availability of credit and the contractions of their balance sheets have tended to precede the onset of financial crisis. For transferring the credit risk, securitization was thought to be a way better to absorb losses but instead it increased the fragility of the entire financial system by allowing banks and other intermediaries to up their leverage by buying one another's securities. It also explained post-crisis financial regime where the role of securitization likely to be held in check with more stringent financial regulation and by the recognition that it is important to prevent excessive leverage and maturity mismatch since both of them can undermine financial stability.

Gorton *et al.* (2010) proposed principles for the regulation of shadow banking system and described a specific proposal to implement those principles.it documented how the rise of shadow banking was helped by regulatory changes that gave advantages to three main institutions, Capturing retail deposits from traditional banks to MMMfs(Money Market Mutual Funds), Securitization to move assets of banks off their balance sheets, and the repurchase agreements (repos) that eased the use of securitized bonds as money. The evolution of a bankruptcy safe port for repos was crucial to the growth and efficiency of shadow banking; regulators can use access to this safe platform as the move to enforce new rules. History revealed two successful methods for regulating privately created money: strict guidelines on collateral and government guaranteed insurance. It proposed the use of insurance for MMMFs, combined with strict guidelines on collateral for both securitization and repos with regulatory control to incentivize compliance on repos.

Gennaioli *et al. (*2011) presented an archetype of shadow banking during which financial intermediaries originate and trade loans then fabricate these loans into varied portfolios then get them financed externally with riskless debt. Under logical expectations, the shadow banking system is considered as stable and it improves welfare. But when investors and intermediaries neglect financial risks leading to the expansion of risky lending and therefore the concentration of risks within the intermediaries create financial fragility and fluctuations in liquidity over time.

Karunagaran (2011) attempted to explore the financial communion between NBFCs (both deposit taking and non-deposit taking) with banking industry in Indian Context. The study found that both NBFCs-D and NBFCs-ND-Systemetically Important are highly dependent on the banking system for their funding, though there are regulatory limits at the individual bank's level to lend to NBFCs. NBFCs' exposures to banks in the form of deposits are however limited. Actually, the discouragement of NBFCs from raising public deposits has ensued the substitution of public deposits with borrowings from the banking regime but the high dependency of NBFCs on banks as a whole makes the financial system riskier in a stressful situation.

Progressive movement towards Basel norms is expected to help mitigate the systemic risks as there are relevant provisions in Basel III to address systemic risks and inter-connectedness among systemically important institutions by mitigating the risks arising

from firm-level exposures. It suggested for higher liquidity requirements against the excessive reliance on wholesale short-term funding and higher capital requirements for inter-financial sector and intra-financial sector exposures are some of the key regulatory requirements that need consideration. Exposures to capital markets related norms of NBFCs also need to be re- examined.

Adrian *et al.* (2012) defined about shadow credit intermediation. From the past sixty years, Credit funding using commercial banks' maturity transformation has declined significantly as market-based credit intermediation has become increasingly. The fall of credit intermediation being financed through traditional banks has been offset in part by the rise of shadow banks. It provided an insight for the new rules to be made for shadow banking and highlight the bumpy impact they will have on the likely size of the shadow banking sector in the future. Considering that changes to accounting and capital requirements will reduce incentives by banks to engage in types of arbitrage activities at the core of the financial crisis i.e, securitization activity but significant increases in the overall level and risk sensitivity of capital will provide strong incentives for credit intermediation to be funded outside of the banking system.

Bengtsson (2012) explored the role of investment funds in the credit intermediation process and their involvement might give rise to various forms of systemic risks. It drew some conclusions on the policy challenges faced by authorities charged with regulating shadow banking.The paper showed that even though traditional investment funds and hedge funds may be very different in terms of their investment strategies and business models but some of them share several commonalities from a systemic risk perspective. More specifically, it discussed how instability in the funding profile of investment funds may threaten their ability to substitute banks' maturity and liquidity transformation, leading to potential funding liquidity shortages, asset reallocations and leverage may contribute to cyclical fluctuations in credit and market runs on the systemic money and short-term credit markets and that improper risk separation may avoid managerial overlook and force banks to reduce credit intermediation.

Acharya *et al.* (2013) concluded the determinants of the growth of the (ND-NBFCs) which are considered by the Reserve Bank of India as being systemically important and have grown significantly in India over the past decade. It documents that bank lending to these NBFCs forms a significant proportion of their liabilities and changes in line with bank allocation to priority lending sectors. Bank lending to NBFCs in turn affects their credit growth, so that the recent growth in assets of the NBFCs can be understood as being increasingly financed by funding from banks. Also, Bank lending to these NBFCs appears to be greater for banks with lower branching network in non-urban areas in comparison to urban areas. However, this bank-NBFC linkage is virtually non-existent for the largest state-owned bank, the State Bank of India (SBI), and its affiliates, which have a deep rural branching network of their own. Interestingly, these bank-NBFC linkages are present primarily for those NBFCs that finance their assets and not for investment companies. Overall, it suggests that NBFCs are seen by banks with less than fully-developed branching networks as a completeness of credit

allocation in non-urban areas of the Indian economy, but that this economic role played by the NBFCs has been potentially constrained since Fall 2008 by distortions in bank deposit base arising from a lack of level-playing field in the perceived government support of different banking groups. NBFCs are relatively well-regulated on the capital front and it is actually their linkage to the banking sector which is a potential concern for systemic risk considerations. This concern complements the issues regarding potential systemic risk of the NBFCs raised in the Thorat report (2011) relating to their concentration in specific asset markets. Furthermore, the results highlight that shadow banking in developing markets look quite different from that in developed economies: well-capitalized, potentially filling in gaps of inadequate intermediation (as explained also in the Indian NBFC summaries by Deosthalee, 2012, and Duggal and Kapali, 2012), and affected during crises by the flight of deposits to state-owned banks in such economies.

Sinha (2013) Reiterated the points on how the NBFC sector is a very important segment of the financial system promising encouragement for further development but at the same time would also require to be observed and regulated more closely given its growth, increasing complexity and impact on the financial system due to increased interconnectedness. In other terms, the very factors which would require the NBFC sector to be actively promoted would also require the sector to be actively regulated. In India, we have always been cognizant of the fact that NBFCs play a significant role in the financial system and in the economic growth. The regulatory framework has been designed and is reviewed from time to time keeping in mind the requirement of the sector as well as the changing dynamics in the financial system due to increased interconnectedness. It has been seen that the shadow banking sector in India did come under stress during the global financial crisis, the stress levels were comparatively modest which did not threaten their solvency. The sector has been largely sound, mainly due to the kind of regulation that has been put in place. Nevertheless, continuing fine tuning of regulation is required to monitor the growth of this sector as it can take unexpected and unforeseen turns and mutations. That is ultimately the objective of the proposed Guidelines.

SHERPA (2013) Explored how Shadow banking has played a part in India and China to meet credit needs not catered to by the formal banking sector. It argued that by financially liberalising and deregulating the economy, it has been seen that shadow banking institutions in both countries becoming more interconnected and more systemically important. It's realized that both India and China require better regulatory supervision based on the functions of shadow banks to reduce the scope of regulatory arbitrage even if this is at the cost of lower economic growth.There is the requirement of better structural regulation of shadow financial institutions to curb their eruptive growth.

Uma (2014) studied the funding sources of NBFCs, their investment strategies and the investment philosophy rooted in NBFCs. From an era of intense regional operations, low intergrity and poor risk management practices NBFCs have come a long way to highly sophisticated operations, pan-India presence and most importantly an alternate

choice of financial intermediation. It is believed capital infusion and leverage thereupon would propel NBFCs' growth in size and scale. A number of NBFCs have been issuing non-convertible debentures (NCDs) in order to increase their balance sheet liquidity. All the advanced economies are well developed to deliver a wide range of financial services and sophisticated products at competitive price that are demanded by the sophisticated clients. In fact, it was found that the more aggressive and innovative NBFIs resulted in improving the efficiency by inciting competition between NBFIs and banking system and ultimately stated to have contributed to macroeconomic stability and sustained economic growth.

Gandhi (2014) explained different types of NBFCs, the regulations they have been following for more than 50 years; their complimentary role to mainstream banks to promote the economy and also in stimulating financial inclusion. Yet, they do pose dangers, but of different variety which primarily relates to consumer protection. It is the continuous attempt of the Reserve Bank to enable systemetic growth of the sector keeping in view the multiple objectives of financial stability, consumer and depositor protection and the requirement for more players in the financial market, also addressing regulatory arbitrage concerns while not forgetting the uniqueness of NBFC sector.

Moreira and Savov (2014) presented a model that joins the macroeconomic cycle to the liquidity transformation cycle in the financial sector. The key point is that while liquidity is valuable, it requires collateral. Since collateral is particularly scarce after large shocks, intermediaries optimally produce state-contingent liquidity in the form of securities that are like money in normal times but cease to be liquid in a crisis. This allows them to produce liquid securities from risky assets, that is to engage in liquidity transformation. We call this process shadow banking. Shadow banking creates bangs in which liquidity provision expands, discount rates fall, asset prices and investment rise and output grows. At the same time, it builds fragility by raising the economy's exposure to uncertainty shocks. Such shocks unleash severe effects when preceded by a boom: shadow banking disappears and liquidity contracts sharply, prices of risky assets fall, expanded by collateral runs and prices of safe assets rise but overall investment and growth fall. Recoveries are slow due to fortress balance sheets and a "collateral decelerator" under which haircuts rise as revived liquidity transformation once again restores uncertainty exposure. In a nutshell, Shadow banking enables high levels of liquidity in good times at the expense of bad times. As it expands and contracts, shadow banking activity shifts the balance between financial stability and growth.

Barth *et al.* (2015) Investigated shadow banking has the prospects not only to be a favourable contributor to continuous economic growth but also to systematic instability if not properly monitored and regulated. Assessed as to whether shadow banking is beneficial or harmful to China's economic growth. The trend in the size of shadow banking in China has been seen to be upwards. There are prominent interconnections between the shadow banking sector and the commercial banking sector. Lower deposit rates and high reserve requirements have been the major factors driving its growth. The conclusions highlighted

Shadow banking has been a contributor to money growth as well as to economic growth.

Levitin (2016) explained the phenomenon of how divorcing deposits and lending would eliminate the root cause of financial market instability and enable truly safe banking. Banking is based on two fundamentally variant functions, safekeeping and re lending of deposits. Safekeeping is meant to be a risk-free function, bank regulation is an attempt for reducing the risk lying in the lending activity- government liquidity, deposit insurance facilities, reserve requirements, investment restrictions, and vigilance are all done for keeping the risks of the lending function in check so as to ensure the safety of deposits. It argued for bifurcating the lending function from the safekeeping function in both traditional and shadow banking through 'Pure Reserve Banking'. In a Pure Reserve Banking system, 'safe banks' would offer safekeeping and payment services, nothing else. Loans would only be the function of capital markets and would operate without government facilitation of shadow-banking deposit substitutes. Breaking the lending function from the safekeeping function would protect both the money supply from the market and the market from the money supply. It would enable the government to end its massive support to both formal-banking markets and shadow-banking markets and would thereby remove the moral hazard that encourages asset bubbles through overlending. At the same time separating lending from safekeeping would bring greater market discipline on lending markets because lending institutions can still be allowed to fail without risking the money supply.

Nazneen and Dhawan (2018) Studied NBFCs' ability to innovate products in consonance to the needs of their clients is well established. The relevance lies in the fact that risk plays an important role in NBFCs performance. Risk management should be within the purview of risk managers as well as the Central Bank of the country. It suggests that prudent risk management practices or lower risk-taking incentives on the part of Indians NBFCs lead to a significant increase in their performance. It is further suggested that regulatory authorities should take into consideration the impact of the risk-taking activities of NBFCs on their performance and embark on more close inspection and enforcement of regulations. These actions will go a long way in improving the performance of the NBFC sector which would help in reinforcing the financial system of the country.

Anthony *et al.* (2018) reviewed the continued development of the 'shadow banking' market in the USA, namely, lending to the private middle market defined as financings of $5-100m to non-public, unrated operating entities or pools of assets with not more than $50m in earnings before interest, taxes and depreciation. Although there have been considerable challenges historically in providing credit to small and mid-sized businesses in the USA, the authors show further evidence that private middle market capital is growing (post credit crisis) because of excessive constraints placed on the regulated depositary institutions. It also explained the nature of the shadow banking innovation and how it is often linked to "arbitraging" excessively restrictive banking regulations. It highlighted that the growing US shadow banking market which is providing an important service to middle market companies may pose a new systemic risk post 2007-2008 credit crisis in the USA.

Sinha (2018) suggested that the success of NBFCs can be clearly attributed to their superior product lines, lower cost, broader reach, vigorous risk management capabilities to check, control bad debts and proper comprehension of their customer segments. Not only they have displayed success in their conventional hold(passenger and commercial vehicle finance) but also managed to build significant assets under management (AUM) in the personal loan and housing finance sector which are very crucial for retail banks. The latent credit demand of an emerging India will permit NBFCs to bridge the gap, particularly where traditional banks were being supposed to serve. Also, improved macroeconomic conditions, larger credit penetration, magnified consumption and refractory digital trends will allow NBFCs credit to rise at a robust rate of 7-10% in the coming years**.**

The Nachiket Mor Committee had observed that the large number of NBFC categories unwieldy give birth to regulatory arbitrage and hampers the evolution of NBFCs that have the capability to provide the wide range of credit products. A shift from 'Entity-based regulation' to 'Activity-based regulation' of NBFCs was being suggested by the committee. It is expected that RBI will bring about further amendment in the NBFC regulations aimed at consolidation of various forms of NBFCs.

Roy and Chatterjee (2018) examined the shadow banking/NBFCs in India and outside India, financial and legal framework for regulating shadow banking in the US and Europe, financial and legal framework in India with reference to RBI and SEBI regulations, and an analysis of the IL&FS crisis in relation to shadow banking in India. Even though RBI regulates NBFCs in India, and the Securities Exchange Board of India (SEBI) regulates some special classes of shadow banking such as collective investment companies, mutual funds, and other securities related institutions, the IL&FS crisis has raised doubts about the watertight regulatory system in India to avoid such future crises. With the NCLT entering into the legal framework for further damage control due to shadow banking crises, the system has received an extra backbone to protect the economy from a 2008- like financial crash any time in the near future. Shadow banking is an alternative system to the banking system, and if proper regulatory measures are followed, the future of financial development can easily bank on shadow banking at a time when the banking sector or other financial sectors have a cash crunch.

Boot and Thakor (2018) examined the ongoing integration of banks and markets through the blurring of boundaries between them. It considered how this integration affects banks and its implications for the future evolution of banks, systemic risk and prudential regulation. It has reviewed some of the literature on why banks exist, the risks they create, and how interbank competition as well as that from markets affects the economic roles served by banks as well as the attendant risks. Banks have become increasingly integrated with markets which generated two effects that work in opposite directions.

On the one hand, Individual banks become better equipped to manage their own risks because it becomes easier and less costly to hedge these risks using the market. This could reduce the risk of an individual bank failing due to an idiosyncratic shock.

On the other hand, there is an increase in the probability that a shock to a small subset of banks could generate systemic effects that ripple through the financial market, so that this banks–markets integration may be causing an elevation of systemic risk. It is easy to see that this substantially complicates the task of prudential regulation of banks and raises the spirit of a widening of the 'implicit' governmental safety net as ex- post efficiency concerns tempt the government to bail out even uninsured players. Governmental initiatives such as those witnessed in the US during the 2007–2009 crisis—massive governmental injections of liquidity and capital into banks and other financial institutions without an adequate corporate control role for the government were very costly and possibly ineffective due to daunting moral hazard and asymmetric information problems.

Shanmugam and Bhaduri (2019) indicated about (i) the growing role of NBFCs in the financial savings of the households in India; (ii) relatively fast credit growth of the NBFCs as compared to banks; (iii) their strong presence in the semi-urban and the rural areas and their strong customer relationship; (iv) their increased share in the retail finance over the years; (v) higher financial support to infrastructure sector relative to their assets of NBFCs compared to banks; (vi) higher profitability of NBFCs than that of banks; and (vii) relatively low NPA ratio of NBFCs as compared banks' NPA.

Sankar and Bhattacharya (2020) explained about P2P lending, a form of crowd-lending and is regulated by RBI as NBFC-P2P. While the P2P lending existed in India from the beginning of this decade (2011-2020), RBI brought it under its ambit through its Master Directions of 2017. The regulations are definitely a good sign to augur the growth opportunities of P2P lending while inculcating a sense of trust and confidence in the participants of P2P lending. However, the regulations, in the process, have also limited the scope of P2P lending. Authors studied the P2P lending process in India, in general. Also, the operating strategies and risk management strategies of the P2P companies registered with RBI as on April 30, 2019. Further, the financial statements of around ten P2P companies are analysed to understand the functioning of P2P companies in India. It serves in recognising the future evolutionary aspects in today's P2P lending framework. It also pointed at few regulatory hurdles that needs to be tackled effectively in order to ensure that the potential gains of P2P lending is realised.

Anshuman and Sharma (2020) studied the financial fragility of the Retail Non-Banking Financial Companies (Retail-NBFCs) sector. It showed that the liquidity crunch in Retail-NBFCs stemmed from their over-dependence on short-term wholesale funding from Liquid Debt Mutual Funds (LDMFs) and the low level of high-quality liquid investments in the LDMF sector. While such reliance worked well in good times, it generated significant short-term debt rollover problems for Retail-NBFCs during

times of stress. The key reason for the inability of Retail-NBFCs to roll over commercial paper was the transmission of systemic risk from Retail-NBFCs to the LDMF sector. Anticipating defaults by Retail-NBFCs, mutual fund investors exited from the LDMF sector. The low levels of high-quality liquid assets in the LDMF sector were insufficient to withstand the concerted redemption pressure by investors and made the LDMF sector reluctant to roll over short-term debt of Retail-NBFCs. They developed a robust tool (Health Score) to estimate financial fragility in a Retail-NBFCs.

IV. Research Gaps Identified

To conclude, I believe the most important yet only partially answered research questions raised are on the following aspects, wherein it includes the implications of the ever-increasing integration of banks and markets for systemic risk and fragility and how it will find its way in India, the issues to be considered in the optimal design of regulation to respond to this growing cross-border footprints of major financial institutions and the increasing integration of banks and financial markets. Many studies have been done on secondary data but there is a need to know the perception of Experts of this field regarding the growth in shadow banking to overall Economic growth, growth in money Supply & growth in Commercial bank Assets which requires primary data as well. Studies on shadow banks have been done in developed nations like US as the systemetic importance of shadow banks was realized during the times of US Financial Crisis 2008, so it's imperitive to analyse the policy implications in developing nations like India because of the differing Economic and Financial Background, the contribution of Shadow banking sector in the Zombification of industries, the future evolutionary aspects of P2P NBFCs in India whereas UK, US and China are already pioneering this P2P Lending Model.

V. Rationale of the Study

The purpose of the study is to know the cause and effect of the Financial, Non Financial and Economic variables related to Nbfcs and the opinions of the professionals and executives in the field of NBFCs about the directions governing NBFCs. The study covers Auditors, Company Secretaries, Cost Accountants, Professors, lawyers and the experts of the concerned field. The study will analyse the interview schedule administered to the respondents to elicit their opinion towards the legal aspects. The legal aspects are confined to the regulations of Non-Banking Financial Companies (Reserve Bank) Directions, 2020.

VI. Objectives

(i) To study about the contribution of this financial sector in the Zombification of Industries (Loans Structure of NBFCs vi s-a-vis of the banks in India.);

(ii) To check the impact of FDI's in NBFCs on bank lending to NBFCs, especially Public sector banks, the shift of deposits from Banks to NBFCs after the upsurge in the NPAs;

(iii) To study how the interconnectedness is impacting the profitability of NBFCs, its growth rate, the bank growth rate and also the systemetic risk and fragility;

(iv) To know about the sufficiency of the policy environment relating to Operating and Risk Management of Nbfcs and their Fundamental aspects as per the knowledge and perception of sample respondents;

(v) To analyse the modus operandi for catering the problem of Moral Hazards of Too big to fail companies; and

(vi) To study about the prospects of integrating cooperative banks & NBFCs, the prospects of P2P NBFCs framework in the betterment of the Indian Economy.

VII. Hypothesis

Based on the foregoing research objectives, the following statistical hypotheses have been formulated to facilitate the findings of the present study.

$H_0$1: There is no significant difference between the growth of NBFCs and Banks

$H_1$1: There is significant difference between the growth of NBFCs and Banks.

$H_0$2: The legal aspects do not provide solutions to the problems confronted by the NBFCs.

$H_0$2: The Legal aspects do provide solutions to the problems confronted by the NBFCs.

$H_0$3: There is no significant difference in shifting of deposits from banks to NBFCs after the upsurge in NPAs

$H_1$3: There is Significance difference in shifting of deposits from banks to NBFCs after the upsurge in NPAs.

VIII. Research Methodology

In view of the nature of data that will be collected from the sample of respondents and from the secondary sources, “Descriptive Research” is considered to be the most appropriate for studying about the legal aspects and “Experimental research” for adhering the cause and effect between other variables. Hence the study has been found to be descriptive, experimental and analytical. The growth and analysis of financial

performance will be done from the audited financial statements of the respective NbFCs and Banks.

The suggestions of the study will emerge from the inferences drawn from the analysis.

Research Design: The study is divided into three major parts where the first part includes the analysis of Regulations complied upon by them, the strategies(Operating, Risk Management) followed, Financial statement analysis of these NBFCs and P2P- NBFCs and its strategical comparison with that from the Indian Banks. Second part would involve the application of statistical tools to the empirical data derived, for knowing the intricacies of the impact on NBFCs because of inter connectedness of Banks with NBFCs, of FDIs, of Banks' NPAs etc. Third part would involve the use of questionnaire for knowing the perception of various experts of this stream about the present regulatory framework and the future evolutionary aspects of this part of Financial sector, which is being called as the brain of Economy.

Statistical Tools: In order to accomplish the objectives set out for this research, responses will be analysed using Statistical tools such as averages, percentages, correlation, ANOVA, weighted score analysis, t-test, Regression, Ratio analysis and other updated modes is desirous to be used.

Data Collection: The present study is an empirical one based on the sample survey. First hand data will be collected from the respondents through separate interview schedule. The interview schedule will be administered to understand their level of opinion about the legal aspects of the RBI regulations applicable to NBFCs, its impact and also their opinion about the future of the NBFCs.

Utmost care will be exercised to have a representative sample.

The study majorly depends on secondary data. The data relating to their outstanding loans, interconnectedness with banks, NPAs, FDIs, shifting of deposits and legal aspects will be collected from the Journals, Prowess, Reports on trends and growth of banking (published by RBI), Ministry of Corporate Affairs, the official sites of these NBFCs, Magazines, RBI Bulletin, RBI Circulars etc. focusing on top 10 NBFCs of India. The data will also be collected on related topics from popular dailies like The Hindu, The Hindu Business Line, livemint, The Indian Express, The Financial Express and The Economic Times, reports of various committees and annual publications, Bloomberg etc.

Reference Period: Financial and Non Financial data for the years (2011- 2021) will be taken for the Research.

IX. TENTATIVE CHAPTER SCHEME

I Introduction- It will comprise the basic structure of NBFCs, Regulations followed, financial products offered in comparison to the banking structure of India with the

norms followed by them. Micro and Macro prudentials of foreign NBFCs will also be explained.

II Review of literature – It will cover the various studies done in the past on NBFCs , its prospects in India and the research gaps that has been identified.

III Research Methodology – It will comprise the methodology adopted for achieving the objectives of the current study, its research design, sampling method, its size, techniques and tools, etc.

IV Data Analysis and interpretation – It will include data analysis part in respect to data collected.

V Conclusion, Limitations and Recommendations – This chapter will conclude the results and key findings of the study, the drawbacks of the present study and the suggestions that would be the resultant element of the analysis done for getting the better prospects for NBFCs sector of the Indian Economy.

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